

cover, that it had abused its power to obtain advances from the bank during its period of prosperity.<sup>1</sup>

Six failures occurred in Canada between 1871 and 1881, six between 1883 and 1889, and eight between 1893 and 1908. The notes in every case since 1881 have been paid in full, but in some cases prior to 1890 they were redeemed after considerable delay and after falling to a discount. The capital of only four of these failed banks was larger than \$500,000, and in three of these four cases the assets and deposit liabilities were assumed by other Canadian banks. The first of these larger failures was that of the Federal Bank of Canada, which increased its capital in 1883 to \$3,000,000, but was compelled to reduce it in 1885 to \$1,250,000 on account of losses from Michigan lumber transactions and loans in Manitoba. The other banks having offices in Toronto came to the assistance of the Federal Bank in January, 1888, and agreed to advance enough money to pay off its entire liabilities and assume the assets, if the bank would wind up its affairs.

The more important failures after 1890 were those of the Commercial Bank of Manitoba, the *Banque du Peuple* of Montreal, the Ontario Bank, and the Sovereign Bank of Canada. The Commercial Bank succeeded to the business of a private firm at Winnipeg in 1884 and assumed the heavy risks which are often run by banks in new countries. Its business was essentially local and its failure was not a surprise to other bankers in the Dominion. The other banks were critical as early as 1892 about accepting the drafts of the Commercial Bank on Montreal, and in May, 1893, a drain of deposits began. The bank paid out its notes for a time to nervous depositors and thus increased its circulation between May 31st and July 3d by the sum of \$140,605, while the deposits were reduced \$189,813.<sup>9</sup> The automatic

<sup>1</sup>Breckenridge, 175.

<sup>2</sup>The purpose of depositors in accepting their deposits in notes was to convert an ordinary claim into a preferred claim, but the process of conversion was necessarily limited by the limit of circulation allowed the bank, as well as by the certainty that the bank would quickly be unable to settle its balances with the other banks.